

# Press release

5 March 2008

## **RABOBANK GROUP: GOOD YEAR 2007 IN TUMULTUOUS MARKET**

- **Net profit up 14% to 2.7 EUR billion**
- **Tier I ratio at 10.7**
- **Return on equity 10.1%**
- **Negative result on indirect subprime exposure EUR 284 million**
- **Private sector lending up 10% to 356 EUR billion**
- **Amounts due to customers up 6% to 250 EUR billion**
- **Retail and corporate savings up EUR 20 billion to EUR 156 billion**
- **Equity up EUR 2.0 billion to EUR 31.4 billion**
- **Income up 14% to EUR 11.5 billion**
- **Operating expenses up 12% to EUR 7.7 billion**
- **Efficiency ratio improved by 1.5 percentage points to 67,0%**
- **Risk Adjusted Return On Capital (RAROC) at 13.0%**

*“For Rabobank Group, 2007 was a good year, although a tumultuous one. Never in my 38-year career have I seen so many issues in a single year as in 2007. Obviously, the most prominent issue for our sector was the credit market crisis, which upset the entire financial world. Having said that, we succeeded in meeting our own financial targets in 2007 as well, with net profit increasing by 14% to EUR 2.7 billion, compared with EUR 2.3 billion in 2006. Virtually all Group entities contributed to this increase in profit, which reflects not only the benefit of the proper spread of our activities but also the strength of our modest risk profile. We do, after all, have a Triple A rating. In 2007, great progress was made with the realisation of a number of strategic goals. We succeeded in strengthening our positions in some Dutch markets that are of special importance to Rabobank Group, one being the mortgages market. In order to serve today’s – and tomorrow’s – customers even better, we made significant investments in new distribution channels. We also greatly expanded our international retail banking business. In addition, our subsidiaries were able to strengthen their activities and market positions in 2007, in line with our strategic principles. Sustainability is core to our operations. In this respect, Rabobank Group made great strides in 2007 and strengthened its image as the pre-eminent sustainable bank globally”,* says Bert Heemskerk, Chairman of the Executive Board.

### **Rabobank Group**

Rabobank Group’s net profit for 2007 was 14% higher, at EUR 2,662 million, than a year ago, with a strong contribution from domestic retail banking - local Rabobanks, Obvion and Bizner. The gain on the sale of Alex is not included in this result, but should have a positive effect on Rabobank Group’s results for 2008.

The turmoil in the financial markets caused a decline in Rabobank International’s net profit. Rabobank Group exceeded its financial targets for 2007: net profit growth was 14%, the Tier I ratio was 10.7 and return on equity was 10.1%. Rabobank Group achieved a Risk Adjusted Return On Capital of 13.0%.

Growth in the mortgages portfolio in the Netherlands was an important factor in the increase in lending, with private sector lending increasing by 10% to EUR 356 billion. The

13% growth in savings to EUR 101 billion was partly due to the large inflow of new savings clients at the local Rabobanks.

Downward pressures on the interest margin and slightly lower income for Rabobank International were more than offset by business growth, with total income 14% higher, at EUR 11.5 billion. Organic growth and acquisitions caused a 12% increase in operating expenses, to EUR 7.7 billion. Gross profit was 20% higher, at EUR 3.8 billion, and the efficiency ratio showed a 1.5 percentage point improvement to 67.0%. The item Value adjustments increased to EUR 742 million, corresponding to 22 basis points of average lending and is in line with the five-year average of 23 basis points.

### **Domestic retail banking**

The domestic retail banking business - the local Rabobanks, Obvion and Bizner – had an excellent year, in both financial and commercial terms. Net profit was 24% higher, at EUR 1,349 (1,091) million. Because income increased and expenses were lower, the efficiency ratio improved by 3.6 percentage points to 66.2%.

In 2007, Rabobank Group succeeded in strengthening its position in both the mortgages market and the savings market. In the mortgages market, where competition remains fierce, the local Rabobanks and Obvion are the undisputed market leaders, with a combined market share of 28% (26%). Rabobank Group's share in the Dutch savings market grew from 39% to 41%. Its share in the SME market was unchanged at 38%. In the start-up market, Rabobank Group succeeded in growing its market share by 5 percentage points to 38%. Lending to the food & agri sector also showed an increase. The local Rabobanks sold more Alles in één Polis and Bedrijven Compact Polis insurance policies. Having and retaining satisfied customers is Rabobank's number one priority. Changing client needs call for a change, in the future, in the services provided by the local Rabobanks to corporate and private clients. The Rabobank 2010 project, which was started in 2007, is the response of the local Rabobanks to the changing conditions.

### **Wholesale banking and international retail banking**

Rabobank International - Rabobank Group's wholesale banking and international retail banking business – saw its net profit decline by 43%. Net profit for 2007 was EUR 394 (687) million. Results for Rabobank International were affected by the credit market crisis. Since trade in a number of professional markets was virtually stagnant, results for Global Financial Markets fell. This decline was partly offset by the good performance of Participations and by lower taxation.

The international retail banking network was expanded by the acquisition of Mid-State Bank & Trust in the United States, Hagabank and Bank Hagakita in Indonesia, and HNS Banco in Chile. In addition, Rabobank International increased its Direct Banking activities by opening its fourth Internet bank abroad, in Australia.

### **Credit and liquidity crisis**

The credit crisis left deep scars in the financial markets over the past months, and, like other financial institutions, Rabobank is feeling its negative effects. The crisis was caused by increased payment problems among less creditworthy mortgage borrowers in the United States as a result of higher interest rates and the decline in housing prices. Since many of these so-called subprime mortgages had been securitised, bundled and resold to other parties in past years, it was unclear where the risks lay, exactly. The result was a lack of confidence, making banks hesitant to lend to each other and thus causing an acute liquidity

shortage in the money markets. The crisis soon spread to the entire credit market, even affecting products totally unrelated to US subprime mortgages. Many markets that, until recently, were liquid saw their liquidity disappear. This had significant consequences for the valuation of positions, because if there is little or no trading in certain financial assets, it is difficult to establish their fair market value. Price quotations seen in the market became more than just a reflection of a position's credit risk - the lack of liquidity, too, is reflected strongly in the prices.

Rabobank Group's balance sheet and profit and loss account are affected by the turmoil in the financial markets, in the context of which a distinction has been made between effects from 'indirect subprime exposure' and 'other effects on profit and equity'.

#### *Indirect subprime-exposure*

Rabobank has no direct exposure to subprime mortgages. However, Rabobank International's investment portfolios contain a limited indirect exposure in the form of Residential Mortgage Backed Securities (RMBSs) and Collateralized Debt Obligations (CDOs). These items have been revalued, with EUR 284 million in value adjustments being charged to profit and loss and EUR 127 million to reserves. At 31 December 2007, this exposure amounted to EUR 318 million.

#### *Other effects on profit and equity*

Apart from the indirect subprime effects discussed above, the turmoil in the financial markets has had other effects in a broader sense, in the form of value adjustments to those financial assets and liabilities that are valued at fair value. These effects are reflected partly in profit and partly in reserves, and result from, inter alia, increased credit spreads. Partly as a result of this, the item 'Net income from financial assets and liabilities at fair value through profit and loss' was EUR 284 million lower in 2007, at EUR -38 (246) million. In the total investment portfolio a revaluation of EUR 697 million was charged to equity.

The credit crisis also caused many structures that had been financed with money market paper to be difficult to finance. Examples include Asset Backed Commercial Paper (ABCP conduits) – i.e. collateralised money market investment vehicles - and Structured Investment Vehicles (SIVs) – i.e. off-balance sheet investment vehicles. Over the past few months, the ABCP market has started to show a split, with high-quality programmes still able to finance themselves and the lesser quality programmes, including SIVs, gradually disappearing from the market. Despite the crisis and thanks to its high-quality programmes, Rabobank still succeeded in refinancing its maturing commercial paper. At year-end 2007, Rabobank Group had EUR 23 billion in ABCP outstanding, largely for the financing of its own originated loans and for customer loans and receivables. A relatively minor part concerns so-called securities arbitrage programmes. Since the benefits of these programmes will largely be lost as a result of the Basel II regulations, which have come into force as from 2008, Rabobank Group is considering a winding-down of these structures.

Rabobank sponsored an SIV called 'Tango', in which it had a 10% shareholding. Since the situation regarding SIVs shows no signs of improvement in the short term, this position has likewise been wound down. After the other investors had bought out more than EUR 5 billion in assets, the remaining Tango assets (EUR 4.8 billion) will be recognised on Rabobank's balance sheet in January 2008. This will have no effect on profit or loss.

After an excellent first half, results for the second half of 2007 lagged behind, particularly in the Global Financial Markets division.

### **Asset management and investment**

In 2007, Rabobank Group's asset management activities - Robeco, Sarasin, Schretlen & Co and Alex - achieved a 62% increase in net profit, to EUR 362 (223) million. This favourable development was the result of the expansion of the Group's interests in Sarasin and in Transtrend, in combination with Sarasin's divestments and the strong investment performance of Transtrend's Diversified Trend Program. Besides the expansion of the Group's interest in Transtrend to 100%, Robeco acquired a 64% interest in the Sustainable Asset Management Group, another leading Swiss-based global player in sustainable investments besides Sarasin. Alex was sold to BinckBank and ceased to be part of Rabobank Group from 2008. In 2007, the inflow of assets at Sarasin and the positive investment results together made an important contribution to the 6% growth, to EUR 232 (219) billion, in assets managed and held in custody for clients.

### **Leasing**

Net profit for De Lage Landen, Rabobank Group's lease subsidiary, grew by 14% to EUR 234 (206) million in 2007. The Car Leasing and Financial Institutions units both saw strong growth in 2007. In order to improve its service to clients with global operations, De Lage Landen worked hard at further standardisation of its business processes in the year under review. Athlon, which had been acquired in 2006, was integrated further into Translease. Among car lease clients, satisfaction with the services continued to grow. Since August 2007, De Lage Landen has also been providing consumer loans under the new Freo label.

### **Real estate**

For Rabo Bouwfonds, Rabobank Group's real estate subsidiary, 2007 was an excellent year. In the first full year since the acquisition of parts of Bouwfonds in 2006, net profit grew by EUR 97 million to EUR 246 (149) million. In the year under review, Rabo Bouwfonds paid a great deal of attention to the integration of the various real estate units. Since the customer remains in the focus of attention during the integration, Rabo Bouwfonds succeeded in strengthening its position in the real estate market in 2007. In the Netherlands, the Bouwfonds Property Development and Rabo Vastgoed tandem maintained its position as the largest housing developer by far. FGH Bank strengthened its position in the Dutch market for real estate financing. Assets managed by Bouwfonds Asset Management reached the EUR 5 billion mark in 2007.

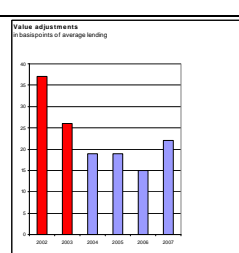
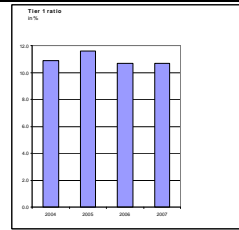
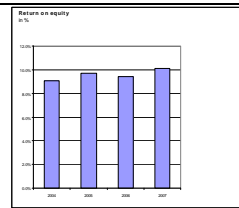
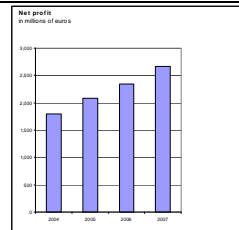
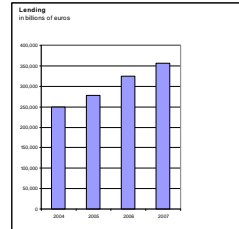
### **Outlook**

Economic developments will present a mixed picture in 2008. The United States economy is showing considerable slowdown, as are Asia and Europe, although to a lesser extent. In Europe, inflationary pressures will keep short-term interest rates at a relatively high level. Thanks to its strong position in the domestic market, Rabobank should continue to benefit from the relatively favourable development of the Dutch economy in 2008. At the same time, as a result of the international slowdown and because the turmoil in the financial markets has not subsided yet, growth in the Netherlands is likewise levelling out slightly. Unless there is significant further deterioration in the financial markets, the Executive Board expects that Rabobank will meet its

long-term profit target again in 2008.



Key Figures	2007	2006	2005	2004
<b>Volume of services (in millions of euros)</b>				
Total assets	570,503	556,455	506,573	483,574
Private sector lending	355,973	324,110	278,095	248,958
Due to customers	249,515	234,917	186,427	177,482
Assets managed and held in custody	301,300	291,200	224,200	223,400
<b>Financial position and solvency (in millions of euros)</b>				
Equity	31,375	29,377	26,349	23,004
Tier I capital	28,484	26,391	24,860	21,404
Qualifying capital	29,156	27,114	25,272	21,205
Risk-weighted assets	266,573	247,458	213,901	196,052
Tier I ratio	10.7	10.7	11.6	10.9
BIS ratio	10.9	11.0	11.8	10.8
<b>Profit and loss account (in millions of euros)</b>				
Total income	11,499	10,049	9,363	9,222
Operating expenses	7,709	6,887	6,242	6,177
Value adjustments	742	450	517	479
Taxation	386	367	521	773
Net profit	2,662	2,345	2,083	1,793
<b>Ratios</b>				
Net profit growth	13.5%	12.6%	16.2%	
Return on equity	10.1%	9.4%	9.7%	9.1%
Efficiency ratio	67.0%	68.5%	66.7%	67.0%
<b>Nearby</b>				
Member banks	174	188	248	288
Offices:				
- branches	1,159	1,214	1,249	1,299
- contact points	3,102	3,091	3,031	2,965
Cash dispensing machines	3,107	3,139	3,116	3,062
Foreign places of business	349	330	267	244
<b>Employees</b>				
Number of employees (in fte)	54,737	50,573	45,580	50,216
Employee satisfaction	85%	87%	81%	85%
Absenteeism	3.8%	3.6%	3.7%	3.8%
<b>Market shares (in the Netherlands)</b>				
Mortgages	28%	26%	23%	25%
Savings	41%	39%	39%	39%
Small and medium-sized enterprises	38%	38%	38%	40%
Food & agri	84%	84%	83%	84%
<b>Ratings</b>				
Standard & Poor's	AAA	AAA	AAA	AAA
Moody's Investor Service	Aaa	Aaa	Aaa	Aaa
Dominion Bond Rating Service	AAA	AAA	AAA	AAA



Dutch GAAP